

VZCZCXRO3877
PP RUEHAG RUEHBC RUEHDE RUEHKUK RUEHROV
DE RUEHLB #0166/01 0311644
ZNY CCCCC ZZH
P 311644Z JAN 07
FM AMEMBASSY BEIRUT
TO RUEHC/SECSTATE WASHDC PRIORITY 7297
INFO RUEHEE/ARAB LEAGUE COLLECTIVE
RUCNMEM/EU MEMBER STATES COLLECTIVE
RUEHNO/USMISSION USNATO 0809
RHMFISS/CDR USCENTCOM MACDILL AFB FL
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 03 BEIRUT 000166

SIPDIS

SIPDIS

NSC FOR ABRAMS/DORAN/MARCHESE/HARDING

E.O. 12958: DECL: 01/31/2017
TAGS: [ECON](#) [EFIN](#) [PGOV](#) [PREL](#) [LE](#)
SUBJECT: LEBANON: RIAD SALAMEH: PRESIDENTIAL CANDIDATE OR
FINANCIAL PROFITEER?

Classified By: Jeffrey D. Feltman, Ambassador. Reason: 1.4 (d)

SUMMARY

1. (C) Ministers Haddad and Azour shared with Ambassador some insight into the Central Bank (CBL) and its governor Riad Salameh, but stopped short of accusing him outright of malfeasance. However, they referred to the GOL/banking relationship as a "mess" and indicated that there are people who can provide more information. They are pleased with the proposed International Monetary Fund (IMF) program, to which Salameh might be opposed. End summary.

2. (C) Ambassador and EconOff visited the Grand Serail January 31 to pay a congratulatory post-Paris III call on the Ministers involved -- Minister of Finance Jihad Azour and Minister of Economy and Trade Sami Haddad -- and benefited from the occasion by indulging in post-party news and gossip with several of the residents of the increasingly dormitory-like Grand Serail. The exchanges, both in tandem and then later alone with Haddad, provided more information on the complex relationship between the Central Bank and the GOL, as well as more questions than answers about Central Bank Governor Riad Salameh. While Salameh is generally well regarded and has won kudos for his expert management of Lebanon's precarious finances in crisis periods, rumors have been circulating that Salameh had somehow managed to profit from Paris III financially -- as he had (it is also rumored) profited from Paris II. So detailed are these whispers that we were previously asked by the Minister of Information to look into activities on an exact date: ten days prior to the January 25 date of Paris III.

CONCERNS ABOUT THE CENTRAL BANK

3. (C) Acknowledging that the relationship between the CBL and the GOL is "very complex" Haddad questioned why the Central Bank should hold interest-bearing bonds from the GOL; should the GOL "pay itself?" In the crisis atmosphere after the 2/14/05 assassination of Rafiq Hariri, the Karami government -- unable to raise money from the private sector directly -- borrowed some USD 6 billion from the CBL. Azour noted that the Siniora government has managed to pay back USD 3 billion so far and pays interest on the rest. Spread out among the banks, this does much to insure their prosperity. The CBL borrows at market rates and then lends to the GOL at higher rates. The large banks have a huge exposure that may in fact exceed their net worth. Further, by law, the GOL should receive 80 percent of the profits of the CBL, but the

money has not been transferred for the last three years. In 2005, the CBL issued ten-year CDs; these should never have exceeded a one-year maturity.

14. (C) Indicating that the situation is a "mess," Azour said that a law has been sent to the Parliament on debt management. While the actions of the CBL have not been universally negative (sometimes they benefited the GOL), there is clearly a need to reach financial independence. On a positive note, the GOL has not borrowed from the CBL for the last 18 months -- the life of the Siniora cabinet -- with the exception of a three-month loan of USD 200 million at the end of July 2006, which has been repaid. The issue of the banks' participation in the post-Paris III reform program is the subject of a meeting today. Azour said that Salameh does not want the GOL to interfere in banking, but he needs to find ways of insuring the contributions of the banks to the reform program. This is still "a missing piece" of Paris III.

DID SALAMEH CROSS THE LINE?

15. (C) While the ministers outlined the situation and detailed next steps after Paris III, a very unflattering picture emerged of both Riad Salameh and the activities of the CBL. While neither minister was prepared to say that Salameh has been profiting illegally from insider knowledge, the responses of "no comment" and "there are plenty of people who can give you information" seemed to indicate that they have their own doubts. Both ministers agreed that "it happened on a massive scale" around the time of Paris II, and "may have happened" now. In simple terms, the existing debt has a market value that would be lower before the donor's conference, and higher after. If individuals could buy some of that debt just prior, they would make a profit after. If

BEIRUT 00000166 002 OF 003

the CBL were so inclined, it could sell the debt to favored banks or private citizens.

16. (C) Azour chose his words carefully, praising the independence of the CBL. But Salameh appears to have been operating completely outside of the scrutiny of the GOL, more so than mere independence from policy direction would suggest. Although the board of the CBL should include two members who are, by regulation, the two Directors General of the Ministry of Finance and the Ministry of Economy and Trade, the CBL seems to have managed to circumvent this requirement, continuing to meet although there is currently no DG in Economy and Trade. In addition, Haddad suggested that the two DGs had previously been "compensated" with multiples of their salaries as GOL employees. Saying that the CBL has not been sending audited financial statements to the Minister of Finance, as required, Haddad pointed out that there are several other areas of concern that Salameh would probably not wish to come under scrutiny, such as the interest paid to the CB, high-yield US Dollar CDs sold to the banking sector and other "financial gimmicks."

WHY IT TOOK SO LONG TO
GET THE IMF PROGRAM

17. (C) Haddad is quite sure that Salameh is opposed to the imposition of an IMF EPCA program, the request for which was approved by the Council of Ministers, and welcomed by the two ministers. This final approval took some time, since not only did Salameh disapprove, but Saad Hariri needed to be convinced that the current IMF was not the IMF which his father had opposed. With the GOL's request to the IMF approved prior to the Core Group meeting in Paris in mid-January, the specific request was not announced there because Salameh had raised objections to elements of it. In a meeting chaired by the PM just before the IMF returned once more to Beirut, Haddad offered to resign over the issue, and Salameh backed down, at which point the GOL's request for an

IMF program was announced. Haddad noted that while the IMF's "regional" officers, such as Mohsen Khan, supported the GOL request for an EPCA program, the "tehhnical" officers did not. Azour thought what really made a difference in resolving this difference of view within the IMF was the forceful letter sent by G7 representatives.

COMMENT

¶18. (C) We have no way of knowing the truth of these rumors. Salameh has been widely credited for successfully guiding Lebanon's precarious financial situation through extremely dangerous periods. Certainly, with the resignation of the Karami cabinet after Hariri's assassination and the simultaneous shuttering of the parliament, Salameh seemed to be the only official working to stabilize Lebanon during the critical spring 2005 period as the "Cedar Revolution" gained momentum and Syria was forced to withdraw its forces. Salameh -- whose presidential ambitions are well known -- may oppose an IMF program because he does not want the truth to be known that he wasn't such a genius after all. Of course, he may also be reluctant to welcome IMF oversight, requiring audited statements and probably ordering the selling of operations such as MEA and the Casino du Liban. It is possible, in other words, that he has something to hide, but it is also possible that he is, in Haddad's opinion, "a good short-term plumber" but "no architect."

¶19. (C) Salameh has his detractors -- while invariably polite, Fouad Siniora is known to detest him -- and his prominent role at Paris III seems to have brought out the daggers. Perhaps Haddad (as Azour was more circumspect) is simply among those trying to bring the celebrated Governor down a notch after wildly generous accolades. According to Haddad, at the 1/24 luncheon for the Lebanese Paris III delegation with President Jacques Chirac in Paris, Chirac referred to Salameh and Jouyet (who managed Paris III for the GOF) as the "technicians," saying that he preferred technicians to politicians. Other than Chirac and Siniora, they were the only voices heard, according to Haddad, with ministers shunted to the margins. During the official Paris III events, Salameh was routinely given precedence over any of the Lebanese ministers, and Chirac pointedly remarked how much Lebanon "owes" Salameh. At a dinner hosted by Rafiq Hariri's widow Nazik, Salameh was lionized.

BEIRUT 00000166 003 OF 003

¶10. (C) Given that Azour was pointedly ignored for his contributions, and Haddad's seat at the conference was given to Salameh by the French, the two ministers' comments could have been motivated by jealousy. (Unusually for Lebanese intra-Christian bickering, neither Haddad -- a Protestant and thus ineligible to ascend to the heights of Baabda -- nor Azour are current competing with Salameh for the presidency.) However, there is a great deal of smoke around this subject, and Haddad actually said that he would resign from the government if Salameh became president. Although we have no way of confirming the rumors at this point, we speculate that there is at least a little fire somewhere beneath the smoke. We are waiting for more details from Salameh's would-be competitors for the presidency, for they have an interest in uncovering any improprieties in hopes of eliminating one of the front-runners.

FELTMAN